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Federal Open Market Committee

Conference Call

April 30, 1991

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Black
Mr. Forrestal
Mr. Keehn
Mr. Kelley
Mr. LaWare
Mr. Mullins
Mr. Parry

Messrs. Hoskins, Melzer, and Syron,
Alternate Members of the Federal Open Market
Committee

Messrs. Boehne, McTeer, and Stern, Presidents of
the Federal Reserve Banks of Philadelphia,
Dallas, and Minneapolis, respectively

Mr. Kohn, Secretary and Economist
Mr. Coyne, Assistant Secretary
Mr. Mattingly, General Counsel
Mr. Prell, Economist

Messrs. Beebe, Lindsey, Promisel, Siegman,
Simpson, and Slifman, Associate Economists

Mr. Sternlight, Manager for Domestic Operations,
System Open Market Account
Mr. Cross, Manager for Foreign Operations,
System Open Market Account

Mr. Wiles, Secretary of the Board, Office of the
Secretary, Board of Governors
Mr. Ettin, Deputy Director, Division of Research
and Statistics, Board of Governors
Mr. Stockton, Associate Director, Division of
Research and Statistics, Board of Governors
Mr. Whitesell, Section Chief, Division of Monetary
Affairs, Board of Governors
Ms. Doying, Assistant to the Secretary, Office of
the Secretary, Board of Governors

Ms. Munnell, Senior Vice President, Federal
Reserve Bank of Boston

Transcript of Telephone Conference Call of
April 30, 1991

CHAIRMAN GREENSPAN. Gentlemen, the Board has just voted to lower the discount rate by 1/2 percentage point and the Desk will reduce the federal funds rate by only half of it, bringing the funds rate down 25 basis points. The reason for this is essentially a reflection of the views that we spelled out at the last FOMC meeting when, as you may recall, the position that I at least was taking on the symmetrical directive was that we were looking for emerging evidence of the turn in the economy. In particular, we expected housing and autos to move and capital goods to hold stable. The evidence at this stage is that the housing markets are clearly turning albeit not at a pronounced rate; nonetheless, they are moving. Auto sales and consumer expenditures are still down, although I still think the odds are that they will pick up. The capital goods markets, however, increasingly are evidencing weakness. I disregard some, but not all, of the anecdotal evidence I keep getting from a lot of my friends in the industrial area; orders in the capital goods and materials areas, as they convey it to me, show no sign of a turn and indeed in many instances are weakening. The last aggregate data that we have on durable goods orders, for example, are quite weak. And the accelerating decline in contracts and permits for nonresidential building strikes me as underscoring the issue of potential emerging weakness in capital goods. In any event, what we are observing is a pattern of incoming data that is running under our forecast and one that suggests that downward revisions will be required. In my judgment the inflationary pressures are easing very considerably. The employment cost index came in pretty much as expected at this particular stage. I would say that the underlying credit and money aggregates are clearly not inflationary. And in my judgment the costs of the insurance of an additional decline in rates of this order of magnitude borders on negligible. I think that the prime rate will move down at this point and it will have some effect.

Other elements involved in this decision come out of discussions I've been having with some of my European and Japanese colleagues who are part of the G-7. But I might add parenthetically that what we're discussing now has nothing to do with the G-7. During tomorrow's conference call, which is still on as scheduled, I hope to fill you in, in some considerable detail, on a very interesting G-7 meeting held on Sunday. However, I have been getting indications--or I should say a little stronger than indications--from our colleagues in Europe specifically that they hope we might find it possible to move rates down largely because they're running into some really serious troubles in the ERM. They view the upside pressure of the dollar in the last [few] weeks against all European currencies, and against the mark especially, as creating significant problems for them. And obviously it is also undercutting our export potential, especially if Europe is slowing down at the pace that now appears to be the case.

In summary, I would say that, in line with the FOMC discussion on how events might or might not materialize, clearly what is happening at this stage is a slowing in the rate of decline but virtually no useful evidence in the order books or in the advance indicators of activity that suggests we are coming out of this

[recession] any time in the immediate future. That's all I have on my agenda. Does anybody from the Board wish to add anything?

VICE CHAIRMAN CORRIGAN. What was the vote?

CHAIRMAN GREENSPAN. The vote was 4 to 1. Does somebody have the press release to read? Jerry, that press release for some reason is not here in the room; we'll get it. Don, why don't you--

MR. KOHN. It cites weakness in the industrial sector and capital goods; it cites progress on inflation; and it notes that the move is partly a catch-up with previous declines in rates, which is a code word for saying that not all of it will be passed through. Those are the major elements.

MR. KEEHN. When will this be announced and when will it be effective?

CHAIRMAN GREENSPAN. It will be announced momentarily and effective immediately.

MR. PARRY. Will you send out a press release to the Reserve Banks?

CHAIRMAN GREENSPAN. That will be done immediately.

MR. HOSKINS. Could Don Kohn bring us up-to-date on the growth paths and add anything on the projections?

MR. KOHN. Yes. We're seeing the money supply slightly weaker than we thought at the FOMC meeting. I don't have any updates for this week, but as of last week we saw about 3-1/2 percent M2 growth in April; at the FOMC meeting we had 5 percent. And we saw about 1-3/4 percent M3 growth and at the FOMC meeting we had 3-3/4 percent for April. So, both looked a bit on the weak side for April but not by very much.

MR. ANGELL. Don, the fourth-quarter average to the end of April that you projected last week was a 4.9 percent growth rate. The midpoint [of our M2 target range for the year] is where?

MR. KOHN. The midpoint is 4-1/2 percent; from Q4 to April M2 is growing at a rate of 4-3/4 percent, so we're right around the midpoint. It's not much different; it's about in line with what we had at the FOMC meeting. There may be a little weakness emerging, but not much. But we had projected this deceleration.

CHAIRMAN GREENSPAN. Let me read to you the operative press release statement: "The action was taken in light of continued weakness in economic activity, especially in the industrial and capital goods areas, and evidence of abating inflationary pressures. The reduction, in part, realigns the discount rate with market interest rates." Any further questions or comments?

MR. BLACK. Mr. Chairman, our Bank has not moved yet on the discount rate. I suppose we can do it all from here through one of our colleagues who is back at home. But is there any urgency to get it done today?

MR. ANGELL. I presume that it would not be that dramatic if you were one day later. It would be up to each Reserve Bank to determine.

CHAIRMAN GREENSPAN. I don't know. Don, why don't you respond to that? The question is: Should the Reserve Bank presidents call their banks to get the discount rate [change] done today instead of tomorrow?

MR. MULLINS. Is there a problem in delaying it a day?

MR. KELLEY. Is there any problem if they do nothing?

CHAIRMAN GREENSPAN. I think it would be helpful if it were done today.

MR. KOHN. Yes, it would be better today--

CHAIRMAN GREENSPAN. If you can do it today, it would be helpful.

MR. KOHN. --although the press release notes which banks are already in.

CHAIRMAN GREENSPAN. Were there five banks in?

MR. KOHN. Five banks, correct.

CHAIRMAN GREENSPAN. Anything else? If there is nothing else, we'll reconvene for a conference call tomorrow at 9:00 a.m. eastern daylight time.

END OF SESSION